R5650-2

JAPAN · ECONOMIC · INSTITUTE

JEI REPORT

A Two-Part Report: A and B

NO. 43B
November 9, 1990

IN THIS ISSUE:

LDP Wins By-Election But U.N. Peace Cooperation Bill Under Assault 1

ANC Leader Nelson Mandela Calls On Japan For More Assistance 3

Government Advisory Panels Call For New Land Tax ... 6

Tokyo Keeping Close Eye On Energy Prices 8

Trade Statistics On U.S.-Japan Services Reveal Surprises 9

Notes: New Administrative Reform Panel; Audio Recording Protection 12

LDP Wins By-Election But U.N. Peace Cooperation Bill Under Assault

Japan's ruling Liberal Democratic Party won a November 4 by-election in Aichi prefecture for a seat in the Diet's upper house, despite growing public opposition to a government-proposed bill that would allow the dispatch overseas of Self-Defense Forces personnel. The victory of LDP candidate Yoshihisa Oshima to fill a vacancy created by the death of Kentaro Takagi, a member of the Komeito opposition party, was interpreted by chief cabinet secretary Misoji Sakamoto as a public vote of confidence for the ruling party. "The U.N. Peace Cooperation Law has drawn strong criticism, but the LDP candidate's win [over candidates from the Japan Socialist Party and Japan Communist Party] demonstrates that the public still has confidence in the LDP," Mr. Sakamoto said. Mr. Oshima, a former member of the Nagoya municipal assembly, garnered 45 percent of the vote, with the remainder split between the candidates from the JSP and the JCP.

enlighten the Japanese people concerning the "true nature" of the proposed U.N. Peace Cooperation Law. LDP secretary general Ichiro Ozawa, one of the most aggressive ruling party advocates of the peace cooperation bill, also said November 2 that the government will continue to push for lower house passage of the legislation before the planned November 10 adjournment of the extraordinary Diet session. "We must not leave the matter unsettled," the LDP secretary general declared. "We must have the Diet's decision on the bill through full deliberation." In a special interview with Japan Economic Journal Mr. Ozawa also let it be known that while the authors of the plan would not compromise on the basic tenets of the peace cooperation measure -- including the provision that authorizes the dispatch overseas of SDF personnel -- they would be willing to bend on some "technical points."

In an effort to buy more time the LDP secretary general proposed November 5, the close of the first full day of Diet debate on the measure, that the special session be extended by 20 days. This was rejected soundly by the opposition parties. Shun Oide, head of the JSP's Diet administration committee, objected on the grounds that "this would go against traditional rules if the LDP extended the session for its own purposes." Representatives from Komeito and the JCP concurred.

Mr. Kaifu's inability to unite his own party behind him on this issue does not bode well for the peace cooperation bill or his political future. Some Japanese political observers speculate that the prime minister may be forced to step down if he fails to get the proposal at least through the lower house. Mr. Ozawa and a few others will be waiting in the wings to pick up where he leaves off (see JEI Report No. 42A, November 2, 1990).

Barbara Wanner

ANC Leader Nelson Mandela Calls On Japan For More Assistance

African National Congress leader Nelson Mandela's October 27-November 1 trip to Japan was interpreted by some observers as a step toward a new relationship between Japan and South Africa. Japan has not had full diplomatic relations with South Africa since World War II; official contacts are maintained at the consular level. Mr. Mandela, who was invited to Japan as a national guest, addressed several themes in his meetings with Japanese government and private-sector leaders. The central message of his visit, however, was the ANC's urgent need for financial assistance.

In an October 29 meeting with Prime Minister Toshiki Kaifu Mr. Mandela contended that mere words from nations voicing opposition to the South African government's racial policy were inadequate. The antiapartheid leader requested $25 million for the ANC, particularly to aid its efforts to provide housing, jobs and education for former political prisoners and exiles. The prime minister said, however, that since "there is no precedent" for Tokyo to provide direct assistance to political organizations in other countries it would be difficult to meet the ANC request. Instead, Mr. Kaifu added, Japan would consider directing aid to the ANC through such international organizations as the United Nations. For fiscal year 1990 Tokyo has pledged Y229.8 million ($1.7 million at Y135=$1.00) through the United Nations and a Japan-European Community fund to programs and organizations working against apartheid (see Table 1).

Table 1: Japanese Support for Antiapartheid Organizations

(in thousands of yen)

Government Outlays	Actual FY 1989	Committed FY 1990
United Nations		
U.N. Trust Fund for South Africa	Y2,460	Y2,720
U.N. Trust Fund for Publicity Against Apartheid	1,230	1,360
Trust Fund for Namibia	1,230	1,360
U.N. Institute for Namibia	31,980	35,360
U.N. Educational and Training Program for Southern Africa	49,200	54,400
With European Community		
Special Joint Programs for South African Blacks	73,800	136,000
Private-Sector Contributions		
Scholarships for Black South Africans	6,298	7,000
Technical Training Center Project	141,000	135,000
Other	38,780	58,540

Source: Ministry of Foreign Affairs

Foreign Ministry spokesperson Taizo Watanabe later expanded on the funding dilemma, noting that Japan has no "legal framework" for such assistance. Mr. Mandela's visit may precipitate the establishment of a new nongovernmental organization through which Tokyo can "manage more straightforward aid efforts" to the ANC, Mr. Watanabe added. Foreign Ministry sources say that Japan has agreed to increase its funding to such nongovernmental organizations and also is considering providing the means for South Africans to train with the Japan International Cooperation Agency and extending small-scale grant assistance through its consulate-general in South Africa; however, the details of the proposals have not been resolved.

Japanese newspapers reportedly disagreed on the exact outcome of Mr. Kaifu's meeting with the antiapartheid leader, but Mr. Mandela interpreted the prime minister's response as a rejection of his request. He later told a press conference, ". . . the contribution made by the Japanese government [in support of the antiapartheid movement] is absolutely insignificant." Mr. Mandela maintains that the ANC should not be treated like other political parties but as an agency of peace in South Africa. In a meeting with Ichiro Ozawa, the Liberal Democratic Party secretary general, he urged the LDP leadership to convince the government of this status. Mr. Mandela also took his appeal for financial support for the antiapartheid movement to leaders of Japan's opposition parties and to public rallies in Tokyo, Osaka and Kyoto.

In special recognition of Mr. Mandela's decades-long leadership of the antiapartheid struggle, Japanese officials accorded him a privilege usually reserved for heads of state -- addressing the Diet. Mr. Mandela's speech to the lawmakers again emphasized the ANC's need for resources to help achieve the

organization's goals. He called on Japan to share with South Africa its "advances and experience in technology, education, economics and other spheres."

The antiapartheid leader carefully addressed two issues that have been sensitive for Japan. Mr. Mandela called recent statements by Justice Minister Seiroku Kajiyama regarding American blacks a matter for Japan's voting public to resolve. The Congressional Black Caucus and others in the United States and Japan have called for Mr. Kajiyama to resign over remarks in which he compared prostitutes' incursions into a neighborhood of Tokyo to a "there-goes-the-neighborhood" reaction in America when blacks moved into previously all-white residential areas.

And, in contrast to his June visit to Washington, Mr. Mandela did not urge a continuation of economic sanctions against South Africa in his address to the Diet or in his meeting with the prime minister. In response to international concerns Tokyo imposed additional restrictions on transactions with South Africa in the fall of 1986; however, two-way trade has continued at its presanctions level. Japanese government sanctions against South Africa include bans on direct investment, the export of computers to government authorities and steel purchases (except imports already under contract). Imports of Krugerand gold coins are restrained, while private loans to that country are discouraged. Reciprocal landing rights between Japan and South Africa officially were suspended in 1986, and Japanese government employees were prohibited from using South African Airways international flights. Yet, Japan currently is South Africa's second-largest trading partner after West Germany (see Tables 2 and 3). Tokyo's approach to the problem of apartheid has emphasized dialogue and improved business ties, while Mr. Mandela argues that sanctions against South Africa should not be lifted until Pretoria's apartheid policies have been removed completely.

Table 2: Japan's Trade with South Africa, 1989

(in millions of dollars)

Imports	Amount	Exports	Amount
Steel	$337.5	Transportation Machinery	$555.1
Nonferrous Metals	278.6	Nonelectric Machinery	464.5
Coal	260.5	Electric Machinery	238.7
Nonferrous Metal Ores	175.0	Steel	75.4
Iron Ore	121.2	Precision Instruments	67.7
Gold (excl. coins)	118.0	Fabricated Metal Products	44.5
Sugar	86.8	Organic Chemicals	27.6
Other	657.2	Other	243.7
Total	2,034.8	Total	1,717.2

Source: Ministry of International Trade and Industry, 1990 Trade White Paper.

During the ANC leader's visit Foreign Ministry spokesperson Watanabe said Tokyo may lift some of its sanctions against Pretoria "because the climate and atmosphere in South Africa is changing for the better," Japanese media

Table 3: South Africa's Top Trading Partners, 1989

(in millions of dollars)

Trading Partner	Exports	Imports	Total Trade
West Germany	$3,263	$1,552	$4,815
Japan	1,737	2,047	3,784
United States	1,659	1,587	3,246
Great Britain	1,704	1,465	3,169
Italy	608	2,548	3,156

Source: International Monetary Fund, Direction of Trade Statistics.

sources said. He noted that the change in policy initially would apply only to restrictions on "exchanges of personnel and visits." Japan currently does not participate in sports, educational or cultural exchanges with South Africa. Black South Africans and those attending antiapartheid conferences in Japan are excepted from this restriction. Tourist visas to South Africans have been suspended since 1986, and Japanese tourism in that country is discouraged. Mr. Watanabe previously was quoted as saying changes were being considered because Tokyo viewed Pretoria's state of emergency, lifted in October, as the most significant obstacle to negotiating an end to apartheid.

Mr. Mandela reportedly received an enthusiastic welcome from both political leaders and the public in Japan. Although the antiapartheid leader expressed disappointment with the Japanese government's position on contributing to the ANC, Tokyo appears increasingly willing to consider alternative ways of showing its support for resolving the problems of apartheid. Mr. Mandela, who stopped in Australia, Indonesia and India before his trip to Tokyo, wrapped up his Asian tour with a visit to Malaysia.

Margo Grimm

Government Advisory Panels Call For New Land Tax

Two government advisory panels, one dealing with land policy reforms and the other looking at land taxation, separately submitted recommendations October 29 and 30 urging the government to take substantive action to decrease land prices, thereby facilitating a reasonably priced supply of housing. With land and housing prices at high levels, middle-income workers increasingly worry that they will never have the chance to buy a home. Moreover, the government is concerned that steep land prices will aggravate the gap between the haves and the have-nots. (For the Economic Planning Agency's review of this problem, see JEI Report No. 32B, August 17, 1990.)

Land prices in both commercial and residential areas have more than doubled in the past five years, which cover Japan's second-longest economic boom and a period when both stock market and real estate speculation helped to drive land prices upward. Today, residential land prices are five to 10 times the average annual income of salaried workers. Both advisory panels interpreted their mandate as dispelling the myth that land prices will never drop in Japan and that property values will continue to appreciate.

percent to an average Y56.3 ($0.42) per liter or about $1.58 per gallon. The results were not entirely as MITI would have liked -- the retail price hikes were considered on the high side, but panic-pricing was avoided.

According to both the International Energy Agency, a group formed by oil-importing nations after the oil crises of the 1970s, and MITI, the lack of refining capacity rather than crude oil supplies might cause disruptions in the future. Many countries are having difficulty replacing supplies of refined products that previously were purchased from Kuwait. IEA has warned that a cold winter will strain supplies of refined products. MITI, also worried about a refining bottleneck, has urged domestic refineries to increase output, especially of kerosene, during the last half of FY 1990. The boost in domestic refining itself could cause price disruptions in certain oil markets. Japanese distillers are rapidly building up stores of high-sulfur bunker fuel oil, the residual from refining jet fuel and distillate or light fuel oil. Other countries are worried that Japanese oil companies will be forced to dump this bunker fuel on the world market, irritating not only foreign competitors but domestic shippers, which are obliged to pay a premium of as much as $55 a ton for Japanese bunker fuel.

The government also has its eye on the long run, recently announcing a new long-term energy outlook that continues the shift away from oil. The October 30 outlook is slightly more conservative than the version submitted by an advisory panel earlier this year (see JEI Report No. 24B, June 22, 1990). Overall energy demand now is expected to grow 31.7 percent between FY 1989 and FY 2010 to 657 million kiloliters of crude oil equivalent, down from the 666 million kiloliters envisioned by the advisory panel. Oil's share of the total supply will drop from 57.9 percent in FY 1989 to 45.3 percent in FY 2010 (only slightly below the advisory body's 46 percent goal). The weight given nuclear power is 16.9 percent of all energy supplied in FY 2010, up from 8.9 percent in FY 1989, while the contribution of alternatives, such as solar power, is expected to jump from 1.3 percent to 5.3 percent over the same period.

Some observers are skeptical that the growth in Japanese energy demand can be curbed to the extent envisioned by MITI. Pointing out that the manufacturing sector already has made significant strides in energy efficiency, they question how much room is left for improvement -- particularly since Japanese firms will have to stress automation to compensate for labor force shortages. In contrast to its ability to influence the manufacturing sector, these critics add, the government's efforts to encourage consumers and the transportation sector to conserve have fallen short. These two user groups have shown the biggest increase in energy demand in the past few years and have the greatest potential for further growth. While government planners feel the nation is in good shape to handle the current Persian Gulf crisis, they understand that proper handling of energy issues will remain central to the economy's long-term growth.

Jon Choy

Trade Statistics On U.S.-Japan Services Reveal Surprises

With services now a much larger component than manufacturing in the domestic economies of all industrial countries, analysts have been eager to

find out how that sector plays in international commerce. This desire has gained urgency since the Uruguay Round of multinational trade negotiations now under way addresses services trade for the first time. A multiyear effort by the Department of Commerce was far more comprehensive than previous studies and resulted in recently released data that show the United States with a strong and rapidly growing surplus in services trade with Japan. (The data refer to what is known technically as nonfactor services. In the case of U.S.-Japan trade this distinction is important mainly in that the Commerce figures omit earnings on direct and portfolio investment.) In 1989 the U.S. services trade surplus of $9.8 billion offset 20 percent of this country's merchandise trade deficit with Japan. By comparison the 1986 figures show only about a 10 percent offset.

Americans accustomed to seeing Japanese tourists in this country will not be surprised to learn that travel and passenger fares accounted for more than two-thirds of 1989's bilateral services surplus (see Table). Some of Commerce's other findings are more surprising, however. For example, American companies operating in Japan sold more services to their U.S. parent than they sourced from the United States (as reflected by the negative exports for private services among affiliated firms). Japanese firms in the United States engaged in comparable behavior. In other words, contrary to the popular image of foreign investment serving as a magnet for merchandise exports from the home country, the opposite appears true for trade in services: foreign investment leads to more imports of services from the host country.

The data also enumerate levels of trade in some services that have experienced heated trade disputes in recent years. Generally, the figures are embarrassingly small. For example, despite the continuing hoopla over construction services, the United States had a bilateral deficit in construction, engineering, architecture and mining services of only $33 million in 1989, down from $116 million in 1986. That figure represented under one-tenth of one percent of the merchandise trade imbalance between the United States and Japan in 1989. (The United States had a modest $586 million worldwide surplus in this sector.) The deficit with Japan may be overstated since imports of construction services are counted using a more inclusive concept than exports.

In legal services the U.S. surplus came to $56 million in 1989, a level little changed from earlier years. In financial services other than insurance the United States moved from deficit to surplus between 1986 and 1989, registering $109 million in black ink last year. The figure, however, omitted important interest-earning banking activities in which Japan may enjoy a surplus vis-a-vis the United States. In insurance the United States exports far more to Japan than it imports.

The numbers for many industries, whether in surplus or deficit, generally are smaller than casual observers might have expected. How can these figures be reconciled with those showing the large and growing role of Japanese service industries in the United States? The explanation is relatively simple. Services inevitably have a very high local content. Virtually all the value-added of a service is the result of salaries paid and intermediate goods and services procured locally. In short, a foreign presence does not necessarily imply a high level of cross-border trade.

These conclusions have implications for extremists of various stripes. Alarmists concerned about the growth of Japanese investment in the United

States worry needlessly that services investment will destroy American jobs. Instead, the investment is likely to add to the options available to workers in service industries and even may lead to new export-oriented employment. Those who have seen services as the solution to the bilateral merchandise trade

U.S.-Japan Trade in Nonfactor Services, 1989

(in millions of dollars)

	Exports	Imports	Balance
Travel	$6,594	$1,784	$4,810
Passenger Fares	2,484	493	1,991
Freight	877	1,888	-1,011
Port Services and Other Transportation	1,904	1,878	26
Royalties and License Fees			
Among Affiliated Firms	1,507	327	1,180
Among Unaffiliated Firms	1,026	126	900
Private Services Among Affiliated Firms			
Among Firms with Non-U.S. Ownership		-498	498
Among Firms with U.S. Ownership	-427		-427
Business, Professional and Technical Services Among Unaffiliated Firms	628	248	380
Advertising	44	74	-30
Computer and Data Processing	126	16	110
Database and Other Information Services	16	6	10
Research, Development and Testing Services	82	D	D
Management, Consulting and Public Relations Services	25	39	-14
Legal Services	60	4	56
Construction, Engineering, Architectural and Mining Services	33	66	-33
Industrial Engineering	33	1	32
Installation, Maintenance and Repair of Equipment	D	D	D
Other	D	6	D
Other Private Services Among Unaffiliated Firms			
Education	320	13	307
Financial Services	552	443	109
Insurance	973	30	943
Telecommunications	262	308	-46
Other	160	30	130
Total Nonfactor Services	16,860	7,070	9,790

*Primarily Japanese-owned firms.
D = Suppressed to avoid disclosure of data on individual companies.

Source: Department of Commerce, Bureau of Economic Analysis

imbalance are likely to be equally disappointed. They may have hoped that the newly expanded data on services would buttress their case by demonstrating a large U.S. advantage in new fields, such as data base services. However, the more comprehensive Commerce data show that most services trade stems from areas such as tourism and transportation, which traditionally have been well-covered by the balance of payments statistics. While most of the newly calculated sectors do show a healthy U.S. surplus with Japan, such services do not make much of a dent in the bilateral goods deficit.

Douglas Ostrom

Notes

New Administrative Reform Panel - Buttressing Tokyo's commitment to improve the quality of life in Japan and fulfill its international responsibilities, Prime Minister Toshiki Kaifu October 31 inaugurated the third Ad Hoc Council on Administrative Reform and mandated that it address vexing economic, social and political issues. Council chairman Eiji Suzuki, who has chaired the previous two such councils, told the panel of business and labor leaders that their goal is to spread the benefits of the nation's economic strength to Japanese consumers. Over the next three years the council will submit suggestions on such issues as: the cost of land, the supply of housing and other social overhead capital, coping with Japan's aging population, further liberalization of agricultural markets, the transparency of Japan's administrative rules and regulations, the government's crisis management apparatus and Japan's contributions to the international community.

The two prior administrative reform panels broadly influenced government policy. The final 1982 report of the first council led to the formation of Nippon Telegraph and Telephone Corp., Japan Tobacco Inc. and the Japan Railway Group from public corporations. The report also advocated a reduction in the size of government and deregulation of Japan's goods and financial markets. The second council's late 1988 report became the basis for a government package of market access and deregulation measures and presaged some of the subjects included in the final Structural Impediments Initiative report (see JEI Report No. 47B, December 16, 1988).

Audio Recording Protection - The Agency for Cultural Affairs outlined October 26 proposed legislation to strengthen protection for foreign audio recordings. To be presented at the next regular Diet session, the planned bill would: grant the same copyright protection to foreign recordings that Japanese artists enjoy with regard to both sales and rentals of all forms of recordings; lengthen the life of audio copyrights from 30 to 50 years; and extend copyright protection to foreign recordings made as early as 1968, which is 10 years before Japan joined the Geneva convention on international copyrights. The proposed law also includes penalties for pirating: a fine of up to Y300,000 ($2,222 at Y135=$1.00) and a one-year jail term.

The agency, part of the Ministry of Education, had hoped that such legislation would be passed in the last regular Diet session, but it was stymied by the political impasse over the 3 percent consumption tax and other issues. Disagreement between foreign recording interests and Japanese record rental stores also hindered consideration of changes sought by the United States (see

NOTE

ONLY THE FOLLOWING PAGES OF THIS

PUBLICATION HAVE BEEN FILMED

Entire Issue